

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 PA-01 AGRE-00 /092 W
-----023839 151650Z /50

R 150025Z APR 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7060
INFO AMCONSUL MONTREAL
AMCONSUL QUEBEC
ALL OTHER CONGENS IN CANADA POUCH

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DEPT. PASS TREASURY

E.O. 11652:N/A
TAGS: ECON, CA
SUBJECT: GOC/PQ SALES TAX FEUD: THE PRICE OF NATIONALISM

REF: A. OTTAWA 1911, B. MONTREAL 696, C. OTTAWA 1814

1. SUMMARY. JOUSTING WITH OTTAWA OVER SALES TAX CUTS
AND THEIR FUNDING MAY BE COSTLY FOR QUEBEC PROVINCIAL
GOVERNMENT. REVENUE LOSS FOR PROVINCE UNDER FINANCE MINIS-
TER CHRETIEN'S LATEST PROPOSALS IS ABOUT CDOLS 183 MILLION
GREATER THAN THAT WHICH WOULD HAVE OCCURRED UNDER OTTAWA'S
INITIAL PROPOSAL OR BY QUEBEC'S COUNTER-PROPOSAL (REF B).
END SUMMARY.

2. IN BUDGET (REF C), GOC OFFERED TO FUND 2 PERCENTAGE
POINT CUT OVER SIX MONTHS IN PROVINCIAL SALES TAXES,
PROVIDED PROVINCES SHOULDERED COST THEMSELVES OF ADDITIONAL
PERCENTAGE POINT CUT FOR 6 MONTHS OR EXTENSION OF 2 PER-
CENTAGE POINT CUT FOR 3 ADDITIONAL MONTHS. IN QUEBEC
CASE, TOTAL COST OF THIS PROPOSAL WOULD HAVE BEEN CDOLS
342 MILLION, OF WHICH OTTAWA WOULD HAVE PAID TWO-THIRDS,
OR CDOLS 226 MILLION. ACCORDINGLY, NET COST TO PROVINCIAL
GOVERNMENT WAS CDOLS 116 MILLION.

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3. IN HIS COUNTER-PROPOSAL, LEVESQUE ELIMINATED 8 PER-

CENT SALES TAX ON CLOTHING, TEXTILES, SHOES AND FURNITURE FOR ONE YEAR AND PERMANENTLY ELIMINATED TAX ON SOME OTHER ITEMS. ESTIMATED TOTAL COST OF CUTS, AT CDOLS 342 MILLION, WAS IDENTICAL TO THAT OF GOC BUDGET PROPOSAL. LEVESQUE COUPLED HIS ACTION WITH REQUEST FOR CDOLS 226 MILLION IN FEDERAL FUNDS, (I.E., THE AMOUNT QUEBEC WOULD HAVE RECEIVED UNDER ORIGINAL FEDERAL PROPOSAL) SO COST TO QUEBEC WOULD HAVE REMAINED AT CDOLS 116 MILLION.

4. CHRETIEN PARTLY REJECTED PQ PROPOSAL, AGREEING TO FUND 2 PERCENTAGE POINT TAX CUT OVER PERIOD OF 6 MONTHS ON WHATEVER ITEMS PROVINCIAL SALES TAX WAS REDUCED, THUS ESSENTIALLY TREATING QUEBEC THE SAME AS OTHER PROVINCES. SHOULD PQ GO ALONG AND TAKE NO FURTHER ACTION, PROVINCIAL GOVERNMENT WILL RECEIVE ONLY CDOLS 43 MILLION FROM GOC INSTEAD OF CDOLS 226 MILLION, A NET LOSS OF REVENUE TO QUEBEC OF CDOLS 183 MILLION. ENDERS

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